MONTANA SCHOOL FOR THE DEAF AND BLIND

GREAT FALLS, MONTANA

FINANCIAL AND COMPLIANCE AUDIT REPORT

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

FROM MARCH 1, 1979 TO SEPTEMBER 30, 1979

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AUDIT ORGANIZATION

McGLADREY HENDRICKSON & CO.

BILLINGS, MONTANA

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Prime Sponsor's Response to Findings and Recommendations

McGladrey Hendrickson & Co.
CERTIFIED PUBLIC ACCOUNTANTS

To the Legislative Audit Committee
Montana State Legislature
Helena, Montana

SUMMARY

We have examined Schedules A and B which summarize reported financial results and cash position of the contract awarded by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council to the Montana School for the Deaf and Blind, Great Falls, Montana, under U.S. Department of Labor Grant No. 30-9-210-46. The Prime Sponsor Contract, Number 9278, was funded from CETA Title IV for the period 3/1/79 - 9/30/79.

The audit disclosed:

- The Contractor initiated the Field Learning Coordinator position prior to the date stipulated in the contract.

Exhibit I lists $1,252 of questionable expenditures disclosed by the audit. The determination as to whether the costs will be allowable or unallowable under the contract will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council. Exhibit I was not prepared for purposes of statistical projection.

SCOPE OF AUDIT

This report covers our examination of the financial results of program operations of the Contractor for the contract and the period referred to in the preceding Summary.

Our examination was made in accordance with instructions contained in the CETA Financial and Compliance Audit Guide and provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", promulgated by the Comptroller General, which pertain to financial and compliance audits.

Our examination included such tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The aforementioned Schedules are required to be prepared in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) in conformity with the CETA Regulations; therefore, they are not intended to present either the financial results of operations or financial position in conformity with generally accepted accounting principles.

Statistical sampling is the preferred method of selecting a sample. Accordingly, in any area where the volume of transactions and record locations would permit, we have used statistical sampling for purposes of determining the audit sample size, selecting the sample items and evaluating the results for the periods examined. Our tests were designed on an attribute sampling basis, based on an expected rate of occurrence of 3% and a confidence level of 90%.

BACKGROUND

Our audit consisted of an examination of the financial and program records related to the CETA program operated by the Contractor.

The objectives of the audit were to determine whether the financial operations were properly conducted and documented, whether the Schedules were fairly presented and whether the Contractor complied with applicable laws and regulations. Our examination did not include a review of economy and efficiency or a review to determine whether desired results or benefits were achieved.

The audit was made by arrangement with the Prime Sponsor, State of Montana, Department of Labor and Industry, Governor's Employment and Training Council, to provide audits required by the United States Department of Labor and to provide the Prime Sponsor with information about the Contractor. The audit covered the period March 1, 1979 to September 30, 1979.

The Contractor examined in this audit was the Montana School for the Deaf and Blind. This was the first contract between the Prime Sponsor and the Contractor. Consequently, there was no prior year audit report.

OPINION

Exhibit I lists $1,252 of questioned costs disclosed by our audit sampling of the Contractor's contract records for the period referred to in the preceding Summary. The determination as to whether such costs will be allowable or unallowable under the contract agreement will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council.

In our opinion, subject to any effects of the ultimate resolution of questioned costs, Schedules A and B present fairly, for the dates and period indicated on the Schedules, the financial results of operations and CETA cash position of the contract awarded to the Montana School for the Deaf and Blind in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with the CETA regulations; and Exhibit I presents fairly the costs questioned as a result of our audit.

FINDING AND RECOMMENDATION

Funding Period

Although the contract was funded from March 1, 1979 to September 30, 1979, it stipulated that the Field Learning Coordinator was to be hired from April 1, 1979 to September 30, 1979. The Contractor started the Field Learning Coordinator position on March 1 and the salary and fringe benefits were charged to CETA from March 1, 1979 to September 30, 1979. Most of the budget variance on Schedule B for salary and fringe benefits is attributed to the positon being funded for seven months rather than the six months provided for in the contract.

Recommendation

The Contractor should review the contracts before implementation to insure compliance with all provisions.

REVIEW OF INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

As part of our examination, we made a study of the systems of internal accounting and administrative control to the extent we considered necessary to evaluate the systems as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and administrative control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the systems of internal accounting and administrative control for the period referred to in the preceding Summary would not necessarily disclose all weaknesses in the system; however, in our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations.

EXIT CONFERENCE

An exit conference was held at Great Falls, Montana on May 14, 1980. Those in attendance were:

Contractor- Miral Gamradt, Business Manager

Auditor- Norm Kolpin, Staff

Audit findings and recommendations were discussed. General agreement was reached as to the audit findings.

This report is intended for use in connection with the administration of CETA grants to which it refers and should not be used for any other purposes.

McGladrey Hendrickson & Co.

Billings, Montana

March 21, 1980

Schedule A

MONTANA SCHOOL FOR THE DEAF AND BLIND

CETA CONTRACT NO. 9278, TITLE IV

STATUS OF FEDERAL CASH

FROM MARCH 1, 1979 TO SEPTEMBER 30, 1979

CASH ON HAND, March 1, 1979	$ -
INCREASES-	
Federal cash received	11,100
DECREASES-	
Gross disbursements	13,585
CASH (DEFICIT), September 30, 1979 (Note 2)	$ (2,485)

See Notes to Schedules and Exhibits.

Schedule B

MONTANA SCHOOL FOR THE DEAF AND BLIND

CETA CONTRACT NO. 9278, TITLE IV

FIELD LEARNING COORDINATOR

STATEMENT OF ACCRUED EXPENDITURES

FROM MARCH 1, 1979 TO SEPTEMBER 30, 1979

COST CATEGORY	Total Contract Budget	Total Accrued Expenditures
Wages	$ 6,184	$ 7,417
Fringe benefits	976	1,265
Administration	4,995	4,603
Instructional materials	1,300	-
Local travel	800	626
Totals	$ 14,255	$ 13,911

See Notes to Schedules and Exhibits.

Exhibit I

MONTANA SCHOOL FOR THE DEAF AND BLIND

CETA CONTRACT NO. 9278, TITLE IV

SUMMARY SCHEDULE OF QUESTIONED COSTS

FROM MARCH 1, 1979 TO SEPTEMBER 30, 1979

COST CATEGORY	Total Amount Questioned	Supporting Exhibit
Wages	$ 1,069	I-A
Fringe benefits	183	I-A
Total	$ 1,252	

See Notes to Schedules and Exhibits.

MONTANA SCHOOL FOR THE DEAF AND BLIND

CETA CONTRACT NO. 9278, TITLE IV

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM MARCH 1, 1979 TO SEPTEMBER 30, 1979

The contract agreement states, "The Contractor shall hire one Field Learning Coordinator from April 1, 1979, through September 30, 1979,...". The Contractor started paying the Field Learning Coordinator's salary out of CETA funds starting March 1, 1979, the beginning date for funding under the contract. The Field Learning Coordinator's March salary of $1,069 and the applicable fringe benefits of $183 are questioned.

NOTES TO SCHEDULES AND EXHIBITS

1. SIGNIFICANT ACCOUNTING POLICIES AND PROGRAM INCOME:

   The Schedules have been prepared in accordance with instructions contained in Standards For Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with CETA Regulations. In accordance with these instructions, federal funds received are recognized when cash is received. Expenditures are recognized when incurred. This basis of accounting is not in accordance with generally accepted accounting principles.

   No program income was received by the contract program during the period covered by these Schedules.

2. CASH DEFICIT:

   The contract showed a cash deficit as of September 30, 1979. This deficit resulted from insufficient cash drawings near the end of the contract period, and was being covered temporarily by cash in the Contractor's other programs.

APPENDIX

DEPARTMENT OF LABOR AND INDUSTRY
EMPLOYMENT AND TRAINING DIVISION

THOMAS L. JUDGE, GOVERNOR

STATE CAPITO

STATE OF MONTANA

(406) 449-5600

HELENA, MONTANA 596

September 22, 1980

Matt Himsl, Chairperson
Legislative Audit Committee
Montana State Legislature
Office of Legislative Auditor
State Capitol
Helena, MT 59601

Dear Mr. Himsl:

Enclosed is the draft Audit Report which we have accepted for Montana School for the Deaf and Blind, Great Falls, Montana for CETA Fiscal Year 1979 Subgrant:

9278 - Title IV, Field Learning Coordinator

This audit was conducted by McGladrey, Hendrickson & Co., CPA's, under contract with the Employment and Training Division, Department of Labor and Industry. The comments and recommendations contained in this report represent the views of the auditing firm.

Upon your review of this audit report, we will begin a 120 day resolution process with the subgrantee as follows:

1. A copy of the final audit report will be sent to the subgrantee for a thirty (30) day comment period. All findings and recommendations are to be addressed by the subgrantee in their response.

2. The Employment and Training Division will issue a written initial determination which will include a notice giving the subgrantee the opportunity for informal resolution.

3. The subgrantee must request an opportunity for informal resolution within ten (10) days in writing. Following the meeting of all appropriate parties, the Employment and Training Division will notify the subgrantee in writing of the nature of the resolution, if all matters have been informally resolved.

4. The Employment and Training Division will issue a final determination no later than 120 days after the audit report has become final. The final determination will include those matters which were not informally resolved, corrective actions

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which will be necessary, and inform the subgrantee of the opportunity to request a hearing. Within thirty (30) days of the receipt of the final determination, the subgrantee must submit in writing a request for hearing to the Employment and Training Division.

The Employment and Training Division will attempt to recover all funds which were not expended in accordance with CETA law and regulations. We will also follow-up on any corrective actions necessary for the subgrantee.

Sincerely,

T. GARY CURTIS
Administrator

Enclosure

FB2/A